

GAMBLE-SKOGMO, INC. 1965 ANNUAL REPORT

AR25



GAMBLE-SKOGMO, INC.

General Offices: 15 North Eighth Street
Minneapolis, Minnesota 55403

DIRECTORS

B. C. GAMBLE	A. G. JOHNSON
C. C. RAUGUST	B. L. ROBBINS
W. P. BERGHUIS	H. C. STEPHENS
B. F. DAVIDSON	A. D. WALKER
W. H. DAVIES, JR.	H. W. ZINSMASTER
R. W. JACKSON	

OFFICERS

B. C. GAMBLE, *Chairman of the Board*
C. C. RAUGUST, *President*
W. P. BERGHUIS, *Senior Vice President and Secretary*
W. H. DAVIES JR., *Vice President and Treasurer*
B. F. DAVIDSON, *Vice President*
H. J. FROMMELT, *Vice President for Public Relations*
P. L. GNAM, *Vice President for Personnel*
A. G. JOHNSON, *Vice President for Merchandising*
E. C. MOORE, *Vice President for Mass Merchandising*
A. PETERSON, *Vice President for Operations*
H. C. STEPHENS, *Vice President*
G. S. YOUNGER, *Vice President for Sales*
P. R. RUNEBERG, *Controller*
R. W. HILL, *Assistant Vice President*
D. W. OLSON, *Assistant Vice President*
HELEN BOHN, *Assistant Secretary*
P. T. MUCKE, *Assistant Secretary*
P. N. JOHNSON, *Assistant Controller*
G. A. KAISER, *Assistant Controller*

TRANSFER AGENT

First National City Bank
55 Wall Street, New York, N. Y. 10015

REGISTRAR

The Chase Manhattan Bank
1 Chase Manhattan Plaza, New York, N. Y. 10015

PRINCIPAL OFFICES

GAMBLE-SKOGMO, INC.
15 North Eighth Street
Minneapolis, Minnesota 55403

RASCO DIVISION
1840 North Soto Street
Los Angeles, California 90032

MODE O'DAY DIVISION
2130 North Hollywood Way
Burbank, California 91500

GAMBLE MACLEOD LIMITED
1530 Gamble Place
Winnipeg 19, Man., Canada

MACLEOD DIVISION
1530 Gamble Place
Winnipeg 19, Man., Canada

STEDMAN DIVISION
136 Portland Street
Toronto 2B, Ont., Canada

MARSHALL WELLS LIMITED
1395 Ellice Avenue
Winnipeg, Man., Canada

ALDENS, INC.
5000 West Roosevelt Road
Chicago, Illinois 60607

GAMBLE SKOGMO ACCEPTANCE
CORPORATION
15 North Eighth Street
Minneapolis, Minnesota 55403

CUSSINS & FEARN CO. INC.
3636 Indianola Avenue
Columbus, Ohio 43214

CLAUDE NEON ADVERTISING LIMITED
4090 Jean Talon Street, West
Montreal 9, P. Q., Canada

Know Your Company!

WHY NOT PUT THIS CARD IN YOUR WALLET NOW

ITS SIZE - ITS PEOPLE
ITS ACTIVITIES

GAMBLE-SKOGMO, INC. FACTS

As of January 31, 1966

Sales and profits:

Net Sales	\$608,243,214
Earnings before Income Taxes	\$ 24,589,480
Income Taxes	\$ 11,765,685
Total Net Earnings	\$ 12,823,795
Net Earnings Per Common Share	\$ 3.12

Other significant information:

Inventories	\$142,636,279
Net Working Capital	\$171,684,763
Current Ratio	2.30 to 1
Stockholders' Equity	\$145,953,059
Book Value Per Common Share	\$ 23.76
Book Value Per Common Share Assuming Conversion of Preferred Stock..	\$28.91

Shareholders:

Number of Shareholders ..	16,576
Shares Outstanding	3,078,489
Dividends Paid	\$ 5,426,060
Dividends Per Common Share	1.20

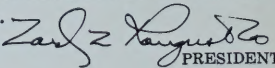
38TH CONSECUTIVE YEAR OF DIVIDENDS

GAMBLE-SKOGMO, INC.

Dear Shareholders and Employees:

This wallet-size fact card will prove useful as a ready reference when answering questions about your company.

The attached card has been prepared as a convenient source of information of Gamble's Highlights of 1965.


PRESIDENT

Employees..... 20,833

Outlets:

Company-owned Stores.....	659
Company-owned Catalog Offices	111
Authorized Dealers.....	3,115
Total Outlets.....	3,885
Warehouses.....	22

From its humble start as a small auto accessory store on a side street in St. Cloud, Minnesota, the company has, in four decades, surpassed \$600 million in sales through over 3,800 retail outlets. We operate in 40 states and in all the provinces of Canada. Company-owned operations in the United States include Gamble Stores, Tempo Department Stores, Cussins & Fearn, Buckeye Mart, Mode O'Day, Rasco Stores and Aldens Catalog, Mail Order and Department Stores. Franchised dealers are Gamble Authorized Dealers and Skogmo Authorized Dealers. Our Canadian company-owned stores are Macleods, Stedmans and Marshall Wells, with franchised operations operating under these three names as authorized dealers. We also operate Clark's Stores in Canada.

GAMBLE-SKOGMO, INC.

15 North Eighth Street,
Minneapolis, Minn. 55403

GAMBLE-SKOGMO, INC. 1965 ANNUAL REPORT

For Fiscal Year Ended January 31, 1966



ON THE COVER OF OUR ANNUAL REPORT and the pages following we would like to have you follow a typical family shopping expedition at one of our stores. Experienced in the merchandising needs of the communities served by the company in its stores of all types, the company has grown and prospered while performing a service of bringing large selections of quality merchandise at lowest possible prices to these communities.

With a Management that is interested in its personnel, and personnel who are dedicated to serving their customers in a friendly and helpful manner, the company has prided itself in being an important member of the community and thereby making a significant contribution to the economy of those communities.

Throughout North America millions of consumer families are living better by shopping at stores operated by the company and its franchised dealers.

Contents

Officers and Directors (*inside front cover*)

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Map (*inside back cover*)

Listing of Stores (*back flap*)

annual meeting fourth Friday in June

FINANCIAL HIGHLIGHTS

	1965 (1)	1964 (1)	1964
Net Sales Including Leased Departments	\$608,243,214	\$555,462,800	\$501,267,277
Earnings before Income Taxes	24,304,295	23,080,736	21,625,737
Provision for Federal, State and Canadian Income Taxes	11,765,685	11,810,383	11,048,806
Net Earnings	12,538,610	11,270,353	10,576,931
Per Share of Common Stock (2)	3.03	2.59	2.59 (3)
Net Earnings from Special Credits	285,185	3,946,734	3,946,734
Per Share of Common Stock (2)	.09	1.28	1.41
Net Earnings and Special Credits	12,823,795	15,217,087	14,523,665
Per Share of Common Stock (2)	3.12	3.87	4.00 (3)
Dividends Paid—Cash	5,426,060	4,383,293	5,592,293
Per Share of Common Stock	1.20	1.50 (4)	1.50 (4)
Stockholders' Equity	145,953,059	140,087,360	132,017,920
Net Working Capital	171,684,763	168,246,809	161,541,319

(1) See Note (1) of notes to consolidated financial statements.

(2) Based on common shares outstanding at end of each year and in case of restated year (1964), adjusted for shares issued in merger.

(3) Restated to provide for annual preferred dividends.

(4) Includes cash dividends for five quarters due to change in accounting period from calendar year to fiscal year ending January 31 and excludes 3% stock dividend.

TO OUR STOCKHOLDERS



Bertin C. Gamble, *Chairman of the Board*

Carl C. Raugust, *President*



In passing the \$600 million mark in sales for 1965, Gamble-Skogmo now assumes an impressive position among the country's major merchandising organizations. Through acquisition and merger effected during the year, your company has achieved further merchandising growth which enlarges its distribution pattern and permits swift and effective action to meet future marketing conditions or changes in consumers' buying habits.

In retrospect, 1965 was an especially good retailing year nationally, and your company, in posting a 12.2 per cent sales gain on a comparable basis, took advantage of the opportunities presented by this favorable marketing climate. Sales in the initial months of 1966 are suggestive of a continuation of these conditions, with perhaps increased consumer interest in soft-lines. It is management's intention to intensify its efforts in all phases of distribution and promotion in the months ahead.

Among the year's accomplishments of special note was the phasing-in of Aldens, acquired in 1964, with complementary Gamble-Skogmo operations. Indicative of the pace of the program is the fact that at year end, catalog sales units featuring the widely-respected Aldens catalog were operative in several hundred Gamble outlets, thus greatly enlarging their merchandising capabilities and creating new opportunities for service to Gamble customers.

It must be recognized that while the potential for this part of our catalog business is highly promising, the immediate volume was quite modest in relation to our overall sales. Furthermore, the establishing of new mail order units and the training of personnel to staff these units is costly but must be considered as an investment in the future. Substantial profits, therefore, will not result from this area immediately and will not be forthcoming while we are still building this phase of our business.

Late in the year, following stockholder approval, the merger of Founders Incorporated into your company was accomplished. The three wholesale-retail merchandising chains which constituted Founders, with aggregate annual sales of approximately \$60 million, increased our company-owned and franchised outlets by more than 900 units, and greatly enlarges our sales and sales potential in Ohio and on the rapidly growing West Coast.

Also late in the year, Marshall Wells Limited, of Canada, with sales at an annual rate of about \$43 million and in which Gamble-Skogmo had a substantial interest, was acquired by Gamble Macleod Limited, the company's wholly-owned Canadian subsidiary. Thus for the first time, operations of Marshall

Wells are included on a consolidated basis from November 1, 1965. Stockholders are urged to study the accounting basis of this report, which is defined on page six.

Marked progress was made in other areas. Service functions, such as accounting and controls, insurance, real estate and certain aspects of buying, were consolidated and streamlined. A program of store modernization in the United States and Canada was continued with favorable results. The Shoppers World stores and the Tempo self-service department stores continued their rapid growth and made a significant contribution to our progress. In general, it may be said that 1965 was a year in which the fundamentals of retail merchandising were accentuated by your company to the end that it enters fiscal 1966 in better balance and with stronger potential.

Living standards in the United States and in Canada are moving to higher levels and it appears that disposable income will continue its upward trend. Mass retailing will keep pace with the needs and desires of consumers, and your company's objective is to maximize its participation in this development.

Through our self-service family department stores—Tempo, Shoppers World and Gamble—and traditional department stores, our Aldens catalog, other company-owned units and loyal franchised dealers in dozens of states and Canada, we look for sustained growth in sales and consequent operational earnings in the years ahead.

To assist us in this, we have 24,000 Gamble-Skogmo employees and dealers whose loyal cooperation in the past and whose active interest in the future, makes the achievement of our goals possible.



C. C. RAUGUST, *President*

B. C. GAMBLE, *Chairman of the Board*

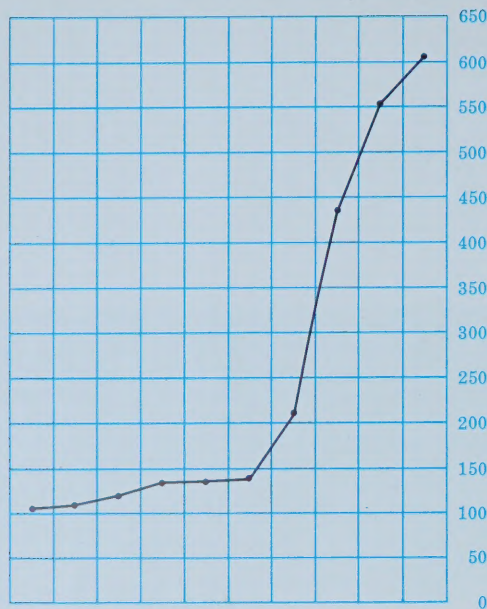
March 28, 1966

GAMBLE-SKOGMO, INC.

Review of the Year Ended January 31, 1966

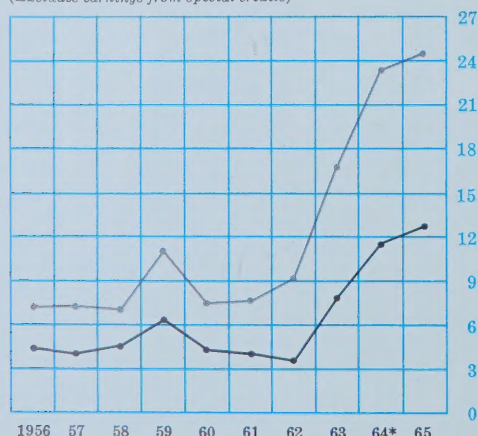


NET SALES in millions of dollars



*Restated as explained in note (1) of notes to consolidated financial statements.

NET EARNINGS in millions of dollars (Excludes earnings from special credits)



*Restated as explained in note (1) of notes to consolidated financial statements.

— Before Taxes — After Taxes

ACCOUNTING BASIS OF THIS REPORT

Sales and earnings as stated in this report include Founders Incorporated on a pooling of interests basis and Marshall Wells Limited, of Canada, as a purchase.

Founders, therefore, has been treated as if it had been a part of the corporation for all of fiscal 1965 and, for comparative purposes, for all of fiscal 1964, although its merger into Gamble-Skogmo did not become effective until January 5, 1966. Because Founders' year ended on December 31st, its results are included for 13 months in the consolidated statement of income for 1965 and for 12 months for the previous year.

Gamble Macleod Limited purchased Marshall Wells as of November 1, 1965, and therefore its results are included only for November, 1965 through January, 1966.

REVIEW OF THE YEAR

Sales Top \$600 Million

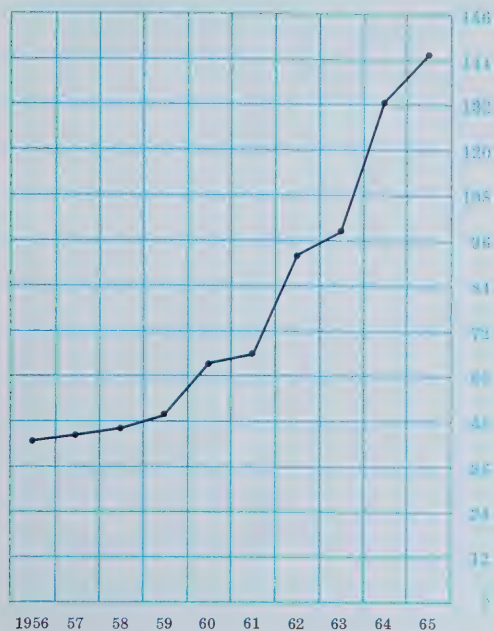
On the accounting basis employed in this report (please see above) consolidated net sales for the fiscal year ended January 31, 1966, including leased departments, totaled \$608,243,214 as compared with \$555,462,800 a year earlier. Sales reached an all-time high, with January, 1966 marking the 57th consecutive month in which volume outstripped that for the previous year's corresponding period.

The 12.2 per cent gain in sales, on a comparable basis, reflects continued growth on the part of established operations resulting primarily from aggressive promotion and the application of improved merchandising techniques as well as contributions from recent acquisitions. Sales also benefited from the marked increase in general economic well-being and consequent rise in personal incomes in the company's principal marketing areas.

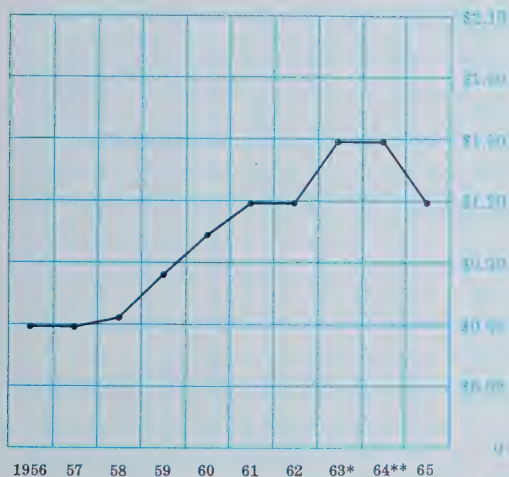




STOCKHOLDERS' EQUITY *in millions of dollars*



DIVIDENDS *per common share*



*Includes extra dividend of \$.30 per common share.

**Includes regular dividends for five quarters due to fiscal year end change to January 31, 1965 and excludes 3% stock dividend.

Operating Income at New High

Consolidated net earnings, after Federal, State and Canadian taxes on income, totaled \$12,538,610 as against \$11,270,353 restated for the comparable period of fiscal 1964. This was equivalent to \$3.03 per share, after preferred dividends, on the 3,078,489 shares of common stock outstanding at the year end compared with \$2.59 per share as restated for the prior fiscal period.

Total net earnings for the year, including other income derived from special items, amounted to \$12,823,795, or \$3.12 per share, as against \$15,217,087 or \$3.87 per share, for the previous year.

Net earnings before taxes aggregated \$24,304,295 for the period ended January 31, 1966 as compared with \$23,080,736 a year earlier.

Dividends For 38 Consecutive Years

Regular cash quarterly dividends of 30 cents per share on the common stock, 43¾ cents per share on the \$1.75 Cumulative Preferred Stock and 40 cents per share on the \$1.60 Cumulative Preferred Stock were paid to stockholders on April 30, July 31, and October 31, 1965 and January 31, 1966. The company has been paying dividends in each of the 38 years since its incorporation in 1928.

Financial Position Continues Strong

The company continues in a strong financial position. Consolidated net working capital aggregated \$171,684,763 as of January 31, 1966. Current assets of \$304,100,024 were 2.3 times total current liabilities of \$132,415,261.

Stockholders' equity continued to increase and totaled \$145,953,059 on January 31, 1966, as compared with \$140,087,360 on a restated basis at the preceding year end.

Gamble Skogmo Acceptance Corporation

Instalment contracts owned by Gamble Skogmo Acceptance Corporation and its wholly-owned subsidiary, Gamble-Aldens Credit Corporation, increased to \$73,985,071 as of January 31, 1966, reflecting the steady growth of credit sales throughout the organization. Gamble-Aldens Credit Corporation was organized in January, 1966 as a wholly-owned subsidiary to handle a portion of the consumer instalment business of Aldens.



Founders Merger

Following approval at a special meeting of stockholders, Founders Incorporated was merged into Gamble-Skogmo, Inc., on January 5, 1966. Under the terms of the merger, 1,312,500 shares of Gamble-Skogmo common stock were exchanged for all of the 250,000 shares of Founders which, at the time of the merger, owned 1,030,000 shares of Gamble-Skogmo common stock. Inasmuch as these latter shares were cancelled concurrent with the merger, its consummation resulted in a net increase of 282,500 in Gamble-Skogmo shares currently outstanding.

The Founders merger brought to the organization three well-established and growing merchandising wholesale-retail chains with aggregate annual sales of approximately \$60,000,000. Two of these units, Mode O'Day and Rasco, extend the company's operations to the important West Coast and adjoining Southwestern States, while Cussins & Fearn Co. Inc. expands its activities eastward in Ohio.

Marshall Wells Acquisition

The company's Canadian operations were extended last November when Marshall Wells Limited, of Canada, with annual sales of about \$43,000,000, was acquired by Gamble Macleod Limited effective on November 1, 1965.

Stockholders are referred to pages 23 to 32 of this report for details regarding the Founders and Marshall Wells operations.

Other Progress in Merchandising

Important progress also was achieved during the past year with regard to the company's other merchandising activities. Twelve new Tempo self-service family department stores were opened in 1965, thus generally continuing the rate of the two preceding years and bringing Tempo units to a total of 45, with an additional ten new stores planned for opening in 1966.

During the year, the company augmented both its merchandising service to customers and its potential for increased sales through expanded use of the well-established Aldens catalog. Indicative of the progress in this area was the opening of several hundred catalog sales units in company-owned Gamble and Tempo stores and selected Gamble franchised stores, all but nine of which were placed in operation during the latter half of fiscal 1965.





Sales of the company's catalog business made steady progress. Reflecting the addition of catalog sales units in operation and the expanded promotion of the Aldens catalog, sales were further enhanced through the expansion of Aldens catalog lists in the first quarter of the year and an increase in the size of the catalog over the catalog issued for the previous Spring and Summer season. Heavier expenditures incurred in establishment of catalog sales desks, training of personnel, greater distribution of the catalog and its increased size, while contributing to sales, all tended to adversely affect profits in this area of the business. These added expenses should be considered as an investment in future potential for increased sales and profits. Plans call for consolidating and improving the catalog sales units opened during the year.

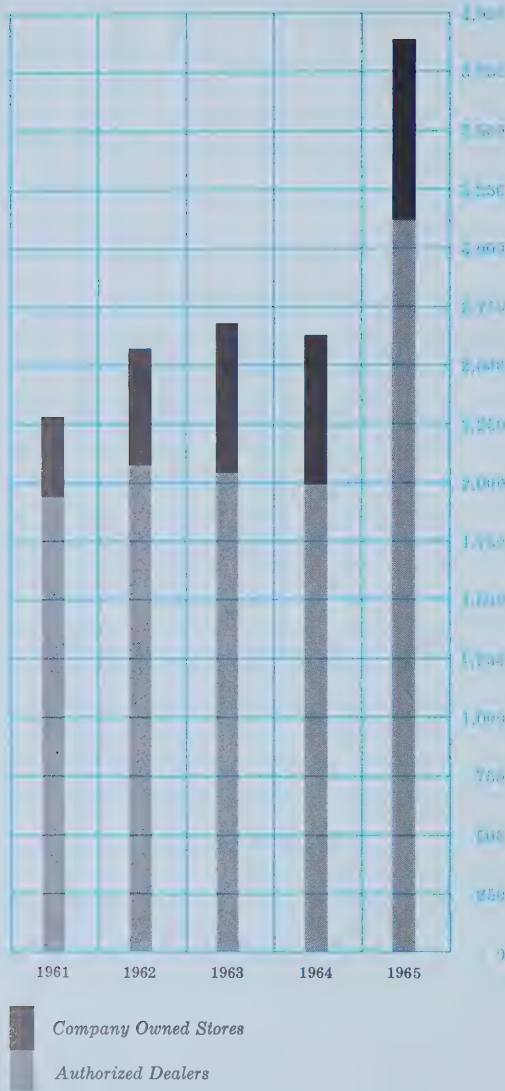
During the year, the company's mass merchandising units—Gamble Department Stores in Kansas City and its environs and Shoppers World stores in the Chicago area—were brought to more acceptable levels of profitability through extensive operational improvements and intensified promotion. The Gamble Department Stores in Kansas City and the Tempo stores were operationally reorganized through the establishment of a separate Region with their direction and supervision under an aggressive staff of the company's most experienced key field personnel.

Added to the one-stop appeal of the Tempo department stores has been the development of Convenience Centers for customers. The Customer Convenience Centers feature services which will not only attract customer traffic, but will produce added income with services such as check cashing, the payment of utility bills, sales of American Express Money Orders and Travelers Cheques, gift certificates, package mailing and postal and notary public services. The Customer Convenience Center was conceived as a vehicle to dramatize the fact that virtually every family need can be satisfied at Tempo.

In line with the company's program of acquiring well-established traditional department stores which are leaders in middle-sized cities, two such units were added in 1965: Goldstein's Department Store in Murfreesboro, Tennessee, and Jay's Department Store, Marysville-Yuba City, California. With expected annual sales of approximately \$2,500,000, these stores add significantly to the diversity of the company's marketing structure.

Further important progress was achieved in Canada where

NUMBER OF OUTLETS



sales and earnings of the Macleod's and Stedman chains of the company's wholly-owned subsidiary, Gamble Macleod Limited, reflected the resurgent Canadian economy and were significantly above those for the preceding year.

Canadian merchandising operations also have been strengthened and broadened importantly with the acquisition of Marshall Wells Limited, of Canada, by Gamble Macleod Limited. In addition, the Canadian subsidiary, Claude Neon Advertising Limited, is currently operating at highly satisfactory levels, with revenues and earnings above those of a year earlier.

The company's continuing programs of store improvement, broadened merchandise lines and aggressive promotion for both company-owned stores and the several thousand independent franchised dealers who comprise such an important element in the Gamble-Skogmo distributive structure were carried forward in both the United States and Canada during the past year. Results from these programs continue to be favorable.

As of January 31, 1966, Gamble-Skogmo, Inc., consisted of 554 general merchandise and variety stores, 82 self-service department stores, 23 conventional department stores, 111 catalog sales units and 3,115 franchised dealers for a total of 3,885 retail outlets.

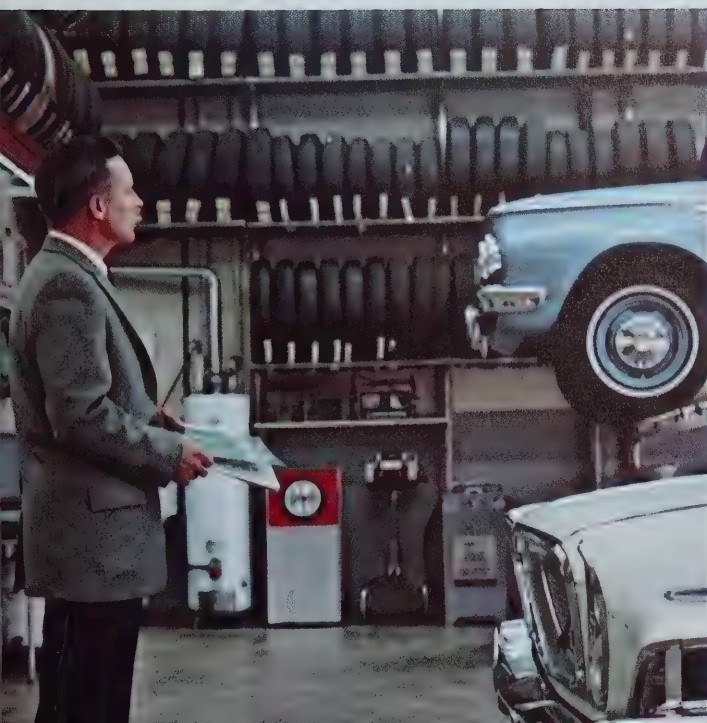
Alleghany Holdings Sold

In December, 1965, the company divested itself of the remainder of its holdings in Alleghany Corporation, thus eliminating its major non-merchandising investment.

Officers and Director Elected

B. F. Davidson has been elected a member of the company's Board of Directors, as well as a Vice President of the corporation. Mr. Davidson has been with the company for 37 years, starting in the Gamble store in Fargo, North Dakota, in 1928 and most recently served the company as Corporate Administrative Assistant.

The Directors also elected two Assistant Vice Presidents, Robert W. Hill and Donald W. Olson, both of whom have had 31 years of service with the company. Mr. Hill started in the company's store in Aberdeen, South Dakota, and is Director of Hardline Buying. Mr. Olson started with the company in its store at Detroit Lakes, Minnesota, and is General Credit Manager.



SIGNIFICANT COMPARISONS

	1965 ⁽¹⁾	1964 ⁽¹⁾⁽³⁾	1964
Net Sales:			
Comparable Units (Including Leased Depts.)	\$608,243,214	\$555,462,800	\$501,267,277
Actual (Excluding Leased Depts.)	582,720,970	533,251,668	481,091,302
Earnings Before Income Taxes	24,589,480	27,027,470	25,572,471
Provision for Income Taxes	11,765,685	11,810,383	11,048,806
Net Earnings ⁽²⁾	12,823,795	15,217,087	14,523,665
Net Earnings Per Common Share ^{(2) (4)}	3.12	3.87	4.00
Dividends Paid—Cash	5,426,060	4,383,293	5,592,293
Dividends Paid Per Common Share	1.20	1.50 ⁽⁵⁾	1.50 ⁽⁵⁾
Current Assets	304,100,024	290,092,125	272,182,287
Current Liabilities	132,415,261	121,845,316	110,640,968
Net Working Capital	171,684,763	168,246,809	161,541,319
Current Ratio	2.30 to 1	2.38 to 1	2.46 to 1
Funded Debt	115,873,254	114,812,988	113,243,178
Stockholders' Equity	145,953,059	140,087,360	132,017,920
Book Value Per Common Share ⁽⁴⁾	23.76	21.86	21.11
Book Value Per Common Share			
Assuming Conversion of Preferred Stock	28.91	27.75	27.64
Inventories	142,636,279	115,760,507	103,525,695
Number of Shareholders	16,576	15,401	15,401
Number of Employees	20,833	18,588	16,115
Number of Company Owned Stores	659	617	533
Number of Company Owned Catalog Offices	111	107	107
Number of Authorized Dealers	3,115	2,826	1,984
Number of Warehouses	22	16	12

(1) See Note (1) of notes to consolidated financial statements.

(2) Includes income from special credits of \$285,185 or \$.09 per common share in 1965, \$3,946,734 or \$1.28 per share in 1964 as restated, \$3,946,734 or \$1.41 per share as reported in 1964, \$4,484,899 or \$1.60 per share in 1963, \$11,598,557 or \$4.35 per share in 1962, \$2,304,691 or \$.87 per share in 1961 and \$15,089,440 or \$5.69 per share in 1960.

(3) Restated to include operations of companies merged with Gamble-Skogmo, Inc. as follows:

1962 to include General Outdoor Advertising Company, Inc. and subsidiaries. 1963 to include Aldens, Inc. and Consolidated subsidiaries except for statistics marked * which are not restated. 1964 to include Founders, Incorporated and subsidiaries.

(4) Based on common shares outstanding at end of year adjusted for shares issued in mergers as explained in note (3).

(5) Includes cash dividends for five quarters due to change in accounting period from calendar to fiscal year ending January 31 and excludes 3% stock dividend.

(6) Includes extra dividend of \$.30 per common share.

1963 (3)	1962 (3)	1961	1960	1959	1958	1957	1956
\$430,761,558	\$209,499,171	\$139,780,698	\$135,885,836	\$135,382,053	\$119,821,596	\$108,678,638	\$100,966,810
413,319,479	203,514,468	140,886,901	143,369,286	143,123,142	119,821,596	108,678,638	101,130,379
21,017,673	20,637,837	10,642,819	28,051,121	10,757,615	6,988,694	7,219,226	7,136,317
8,811,518	5,612,532	4,527,338	8,902,466	4,547,710	2,593,248	3,218,048	3,024,887
12,206,155	15,025,305	6,115,481	19,148,655	6,209,905	4,395,446	4,001,178	4,111,430
3.21	5.24	2.31	7.19	2.27	1.56	1.40	1.44
4,071,618	3,191,791	3,182,791	2,869,895	2,430,760	1,906,190	1,785,254	1,786,505
1.50 ⁽⁶⁾	1.20	1.20	1.05	.85	.65	.60	.60
94,600,129*	90,928,590	57,388,809	69,758,212	58,073,440	45,697,219	43,628,075	44,665,678
33,363,156*	41,802,163	20,033,663	16,057,718	22,291,316	13,208,441	12,615,589	10,664,978
61,236,973*	49,126,427	37,355,146	53,700,494	35,782,124	32,488,778	31,012,486	34,000,700
2.84 to 1*	2.18 to 1	2.86 to 1	4.34 to 1	2.61 to 1	3.46 to 1	3.46 to 1	4.19 to 1
37,873,979*	39,281,617	12,975,000	13,150,000	18,325,000	10,425,000	7,600,000	8,275,000
98,213,159*	92,424,947	65,933,118	63,000,455	50,126,616	46,480,322	44,770,936	42,710,650
26.49*	25.70	24.86	23.75	17.62	16.19	14.75	13.90
61,629,968*	57,115,687	37,522,953	39,051,119	33,877,723	27,615,238	23,391,594	23,678,036
14,780	11,049	8,155	7,782	8,533	8,373	8,026	7,356
14,373	7,057	3,961	3,874	3,757	3,719	3,648	3,598
527	495	337	330	323	325	318	312
106							
2,040	2,075	1,932	1,935	1,869	1,839	1,823	1,833
12	9	8	8	7	8	8	8

CONSOLIDATED

ASSETS

	January 31	
	1966	1965 (note 1)
Current assets		
Cash	\$ 14,079,950	\$ 26,053,644
Receivables		
Customers' instalment accounts, including equity in accounts sold	136,238,615	138,493,848
Other customers' accounts	15,545,740	12,891,621
Miscellaneous	5,056,391	3,711,639
	156,840,746	155,097,108
Less allowance for doubtful receivables and estimated collection expenses . .	15,572,282	13,591,020
Net receivables	141,268,464	141,506,088
Inventories at lower of cost or market	142,636,279	115,760,507
Prepaid expenses	6,115,331	6,771,886
Total current assets	304,100,024	290,092,125
Investments (notes 1 and 4)		
Unconsolidated subsidiaries, at equity value	15,937,894	12,157,513
Affiliates, at cost	597,004	6,188,654
Common stock (500,000 shares) of Alleghany Corporation, at cost	—	5,087,655
Other securities and notes receivable, at cost	2,710,912	2,644,978
Total investments	19,245,810	26,078,800
Fixed assets, at cost		
Land	3,811,313	3,752,472
Buildings and equipment	56,799,637	46,598,181
	60,610,950	50,350,653
Less allowance for depreciation	24,791,299	20,904,682
	35,819,651	29,445,971
Advertising display plants, less amortization	2,646,600	2,489,391
Leasehold improvements, less amortization	5,170,365	4,299,413
Net fixed assets	43,636,616	36,234,775
Other assets		
Retirement fund for officers and key employees (cash surrender value of insurance)	1,450,750	1,295,203
Deferred charges, less amortization	2,845,733	1,106,268
Excess of cost over equity of consolidated subsidiaries acquired (note 2)	23,973,667	23,745,309
Sundry other assets	363,927	861,763
Patents, copyrights and goodwill	2	2
Total other assets	28,634,079	27,008,545
	\$ 395,616,529	\$ 379,414,245

See accompanying notes to consolidated financial statements.

BALANCE SHEET /

January 31, 1966
with comparative figures for January 31, 1965

LIABILITIES

	January 31	
	1966	1965 (note 1 and 4)
Current liabilities		
Notes payable	\$ 49,278,974	\$ 43,940,000
Current instalment of long-term debt	2,368,115	6,276,537
Trade accounts payable	30,531,900	26,023,328
Other payables and accrued expenses	21,632,555	18,722,614
Provision for loss on foreign exchange	2,163,275	1,802,128
Provision for income taxes	6,852,942	8,723,209
Deferred Federal income taxes (note 3)	19,587,500	16,357,500
Total current liabilities	132,415,261	121,845,316
Long-term debt (note 4)	115,873,254	114,812,988
Minority interests in consolidated subsidiaries	1,374,955	2,668,581
Stockholders' equity (notes 5, 6 and 7)		
Preferred (voting) stock of \$40 par value per share; cumulative and convertible, \$1.75 per share dividend. Authorized 600,000 shares; issued 597,092 shares	23,883,680	23,883,680
Preferred (voting) stock of \$5 par value per share; cumulative and convertible, \$1.60 per share dividend. Authorized 1,400,000 shares; issued 1,354,904 and 1,355,106 shares at respective dates	6,774,520	6,775,530
Common shares of \$5 par value per share. Authorized 6,000,000 shares; issued 3,088,889 and 3,087,990 shares at respective dates	15,444,445	15,439,950
Additional paid-in capital	4,433,600	4,607,489
Retained earnings	95,772,650	89,380,711
	146,308,895	140,087,360
Less common stock held by subsidiary, at cost; 10,400 shares	355,836	—
Total stockholders' equity	145,953,059	140,087,360
Contingent liabilities and commitments (note 8)		
	<u>\$ 395,616,529</u>	<u>\$ 379,414,245</u>

CONSOLIDATED STATEMENT OF EARNINGS

	Twelve months ended January 31, 1966	Thirteen months ended January 31, 1965 (note 1)
Sales and other income:		
Sales	\$608,243,214	\$555,462,800
Less leased department sales	25,522,244	22,211,132
Net merchandise sales	582,720,970	533,251,668
Advertising revenues	11,909,862	11,968,231
Other income—net	1,317,495	1,097,227
Dividend from affiliate representing prior years' earnings	2,051,523	—
Total income	597,999,850	546,317,126
Costs and expenses:		
Cost of sales, including certain occupancy and buying costs	450,924,128	409,003,020
Operating and administrative expenses (net of instalment account service charges)	104,646,531	99,596,913
Depreciation and amortization	5,358,178	4,041,488
Interest	9,757,650	8,689,226
Provision for employees' profit sharing (retirement) trusts	3,009,068	1,905,743
Total costs and expenses	573,695,555	523,236,390
Earnings before income taxes	24,304,295	23,080,736
Provision for income taxes (note 3)	11,765,685	11,810,383
Net earnings	12,538,610	11,270,353
Special credits—net (in 1965 principally gain on sale of Alleghany Corporation stock)	285,185	3,946,734
Net earnings and special credits	\$ 12,823,795	\$ 15,217,087

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Twelve Months ended January 31, 1966	Thirteen Months ended January 31, 1965
Balance at beginning of period	\$ 89,380,711	\$ 58,658,874
Equity in pooled portion of retained earnings of Aldens, Inc. and Founders Incorporated	—	25,062,506
Beginning balance as restated	89,380,711	83,721,380
Add—net earnings and special credits	12,823,795	15,217,087
	102,204,506	98,938,467
Deduct		
Premium on redemption of Canadian subsidiary's preferred stock	—	192,000
Income taxes on dividends received on Gamble common stock owned by Founders	88,992	90,675
Dividends on:		
\$1.75 preferred stock—cash	1,044,928	1,306,159
\$1.60 preferred stock—cash	2,167,925	180,677
Common stock:		
Cash—\$1.20 per share (1965-\$1.50)	2,213,207	2,896,457
Stock—3%—81,220 shares	—	2,641,274
Stock of pooled companies prior to acquisition	916,804	2,250,514
	6,431,856	9,557,756
Balance at end of period	<u>\$ 95,772,650</u>	<u>\$ 89,380,711</u>

CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

Balance at beginning of period	\$ 4,607,489	\$ 2,233,975
Adjustments arising from pooling with Aldens, Inc.	—	8,593,147
Adjustments arising from pooling with Founders Incorporated	—	(8,460,315)
Beginning balance as restated	4,607,489	2,366,807
Add		
Proceeds in excess of par value received on exercise of stock options	16,660	362,400
Excess of market value over par value of 81,220 shares of common stock issued as stock dividends	—	2,235,174
	4,624,149	4,964,381
Deduct—merger expenses	190,549	356,892
Balance at end of period	<u>\$ 4,433,600</u>	<u>\$ 4,607,489</u>

See accompanying notes to consolidated financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended January 31, 1966

SOURCE OF FUNDS

Net earnings and special credits	\$12,823,795
Depreciation and amortization of fixed assets	5,358,178
Decrease in investments	6,832,990
Increase in long-term debt—net	1,060,266
Other	393,948
Total	<u>\$26,469,177</u>

APPLICATION OF FUNDS

Cash dividends	\$ 6,342,864
Additions to fixed assets, net of disposals	12,760,019
Additions to other assets	1,999,337
Reduction of minority interest in consolidated subsidiaries	1,293,626
Increase in working capital	3,437,954
Other	635,377
Total	<u>\$26,469,177</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1966

(1) The consolidated financial statements include the accounts of Gamble-Skogmo, Inc. and all subsidiaries except: (a) wholly-owned life insurance and real estate subsidiaries of Aldens, Inc. (the real estate subsidiaries are consolidated in financial statements filed with the Securities and Exchange Commission) and two wholly-owned subsidiaries of Gamble Macleod Limited all of which, when considered in the aggregate, do not constitute a significant subsidiary, and (b) Gamble Skogmo Acceptance Corporation, wholly-owned finance subsidiary, and its subsidiaries for which a consolidated balance sheet appears elsewhere in this report.

The acquisition of Founders Incorporated, effective January 5, 1966, has been recorded as a pooling of interests and consequently comparative figures for the preceding year have been restated to include the accounts of Founders and its subsidiaries. As of November 1, 1965 Gamble Macleod Limited, a wholly-owned Canadian subsidiary of Gamble-Skogmo, Inc., purchased all of the outstanding common stock of Marshall Wells Limited and the accompanying consolidated financial statements include the accounts of that company for the period November 1, 1965 to January 31, 1966. Other income-net for the current year includes the

loss from operations of General Outdoor Advertising Co., Inc. (liquidated and merged into Gamble in November 1965) and figures for the prior year have been restated to reflect similar treatment since the loss for that year was previously reported as a "Special item."

Subsidiaries not consolidated are carried in the accompanying balance sheet at underlying equity value and earnings of these subsidiaries for the year ended January 31, 1966, \$1,031,932, have been included in consolidated income.

Provision has been made for loss on conversion of the accounts of the Canadian subsidiaries to U. S. dollars and for income taxes on dividends which may be paid from undistributed earnings of Gamble Macleod Limited.

(2) The companies do not intend to amortize the remaining balance of excess of cost over equity in consolidated subsidiaries since there has been no evidence of impairment of value of the assets and businesses of such subsidiaries including the amount \$1,710,898, applicable to the former Canadian advertising subsidiaries of General Outdoor.

(3) Deferred income taxes resulting from differences between tax and financial accounting amounted to \$19,587,500 at January 31, 1966, of which \$18,600,000 represents deferred taxes on unrealized gross profit on instalment receivables of Aldens, Inc., \$325,000 represents deferred taxes resulting from differences in depreciation of a Canadian advertising subsidiary and \$662,500 represents deferred taxes on dividends of Gamble Macleod Limited which may be paid in future years from undistributed earnings.

Deferred income taxes, included in non-current liabilities in prior years' financial statements, have been included in current liabilities in the accompanying balance sheet for 1966, as it is now generally recognized that such taxes should be classified in the same way as the related assets. Corresponding 1965 amounts, included for comparative purposes, have been restated.

Provisions for deferred income taxes for the periods ended January 31, 1966 and January 31, 1965 were \$3,455,000 and \$4,520,000, respectively.

(4) Long-term debt aggregates \$118,241,369 of which \$2,368,115 is included in current liabilities as current instalments of long-term debt. Notes of \$9,139,395 with a 5% interest rate mature through 1970 and are secured principally by securities of certain subsidiaries. Notes of \$94,101,974 mature in instalments to 1985 and bear interest at rates from 5% to 6% and include \$12,600,000 senior subordinated notes of Aldens, Inc. Also included in long-term debt are \$15,000,000 of 5 $\frac{3}{8}$ % sinking fund debentures of Aldens, Inc. due 1971-1981.

A revolving credit note of \$20,000,000 included in long-term debt was paid subsequent to the balance sheet date. Under terms of the agreement, the bank agrees to make advances to the Company not to exceed \$20,000,000 and any amount outstanding under this arrangement at February 28, 1968 will be converted to a term loan maturing in five (5) equal annual instalments commencing February 28, 1969. The Company must pay a commitment fee on the average daily unused portion of the commitment to February 28, 1968. Maximum annual payments of long-term debt during the next five years ending January 31, including the aforementioned revolving credit note, are as follows: 1967—\$22,368,115; 1968—\$6,118,231; 1969—\$5,229,060; 1970—\$9,450,943; and 1971—\$3,493,735.

(5) Each share of \$1.75 Cumulative Preferred Stock is convertible into 1.03 shares of common stock until October 31, 1973, 9,027/10,000ths of a share to October 31, 1978 and 8,024/10,000ths of a share to October 31, 1983 on which date conversion rights expire. The stock is redeemable at the option of the Company at \$42.50 per share plus accrued and unpaid dividends during the year ending October 31, 1969 with successive annual reductions of 25 cents per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983.

Each share of \$1.60 Cumulative Preferred Stock is convertible into one share of common stock until November 30, 1974, 9/10ths of a share to November 30, 1979 and 8/10ths of a share to November 30, 1984 on which date conversion rights expire. After November 30, 1969 the stock is redeemable at the option of the Company at \$35.00 per share plus accrued and unpaid dividends. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1984.

(6) At January 31, 1966, 2,323,001 shares of common stock were reserved as follows:

- (a) 1,969,909 shares for issuance upon conversion of preferred stock (see note 5).
- (b) 206,000 shares for issuance at a price of \$25.24 per share upon exercise of warrants issued in connection with the sale of unsecured notes originally due May 1, 1975 but prepaid during the year ended January 31, 1966.
- (c) 147,092 shares for issuance under the Company's Restricted Stock Option Plan for executives and key employees. At January 31, 1965 options on 102,589 shares were outstanding. During the year ended January 31, 1966 options were issued for 15,000 shares, options were exercised on 697 shares, and options for 3,250 shares lapsed, leaving options on 113,642 shares at an aggregate option price of \$3,329,016 at January 31, 1966.

(7) Retained earnings at January 31, 1966 includes undistributed earnings of subsidiaries, \$75,534,426, of which approximately \$19,500,000 is restricted as to payment of dividends under the terms of various indentures and agreements relating to long-term debt.

(8) During 1962, 1963 and 1964 the operating branches of General Outdoor Advertising Co., Inc. were sold and notes were received for a substantial portion of the sales price. These and certain other notes were sold to banks under purchase-guaranty agreements under which Gamble-Skogmo, Inc. unconditionally guarantees payment of the notes. At January 31, 1966 the uncollected balance of such notes was \$25,533,662 and no instalments were delinquent. Certain consolidated subsidiaries of Gamble-Skogmo, Inc. have sold \$18,000,000 of customer contracts to an unconsolidated finance subsidiary of Gamble and have the option, but not the obligation, to repurchase any defaulted contracts.

The approximate minimum annual rentals under 839 leases in effect at January 31, 1966 expiring beyond January 31, 1969, are \$12,473,716 of which 518 leases with annual rentals of \$2,538,010 expire within five years; 182 leases with annual rentals of \$2,769,637 expire within ten years; 85 leases with annual rentals of \$3,720,407 expire within 15 years and 54 leases with annual rentals of \$3,445,662 extend beyond fifteen years. These amounts exclude maintenance cost, real estate taxes, insurance, etc. and increased amounts based on percentages of sales which may be payable in some cases.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO., *Certified Public Accountants*

Northwestern Bank Building, Minneapolis, Minn. 55402

The Board of Directors and Stockholders Gamble-Skogmo, Inc.:

We have examined the consolidated balance sheet of Gamble-Skogmo, Inc. and consolidated subsidiaries as of January 31, 1966 and the related statements of earnings, retained earnings and additional paid-in capital and the statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet, and statements of consolidated earnings, retained earnings and additional paid-in capital present fairly the financial position of Gamble-Skogmo, Inc. and consolidated subsidiaries at January 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated. Also, in our opinion, the accompanying statement of source and application of funds for the year ended January 31, 1966 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & Co.

CONSOLIDATED BALANCE SHEET

January 31, 1966

with comparative figures for January 31, 1965

	January 31,	
	1966	1965
ASSETS		
Customer contracts purchased from affiliates	\$ 73,985,071	\$ 47,326,286
Less portion of purchase price withheld pending collection	6,374,626	5,302,266
Net contracts receivable	67,610,445	42,024,020
Cash	259,655	263,110
Interest receivable	11,029	3,909
Prepaid expenses, principally interest	241,296	105,449
Notes receivable, less allowance for doubtful accounts, \$41,327 and \$17,719 at respective dates.	799,163	538,091
Unamortized loan expense	95,511	104,155
	<u>\$ 69,017,099</u>	<u>\$ 43,038,734</u>
LIABILITIES		
Notes payable	\$ 36,355,000	\$ 15,727,500
Accrued interest	511,805	2,625
Taxes on income, estimated	328,556	355,296
5% sinking fund notes due 1982	16,000,000	16,000,000
5 $\frac{3}{8}$ % subordinated sinking fund notes due 1982	4,000,000	4,000,000
5% subordinated debenture notes due in annual instalments, 1973 through 1983	300,000	300,000
5 $\frac{1}{2}$ % direct loan note due in annual instalments, 1976 through 1980	300,000	—
Total liabilities	<u>57,795,361</u>	<u>36,385,421</u>
Stockholder's equity		
Common stock without par value. Authorized 200,000 shares; issued 85,000 shares at stated value (45,000 shares in 1965)	9,500,000	5,500,000
Retained earnings—beginning of period	1,153,313	686,441
Net earnings	568,425	466,872
Retained earnings—end of period (approximately \$960,000 available for divi- dends at January 31, 1966)	1,721,738	1,153,313
Total stockholder's equity	<u>11,221,738</u>	<u>6,653,313</u>
	<u>\$ 69,017,099</u>	<u>\$ 43,038,734</u>

ACCOUNTANTS' REPORT

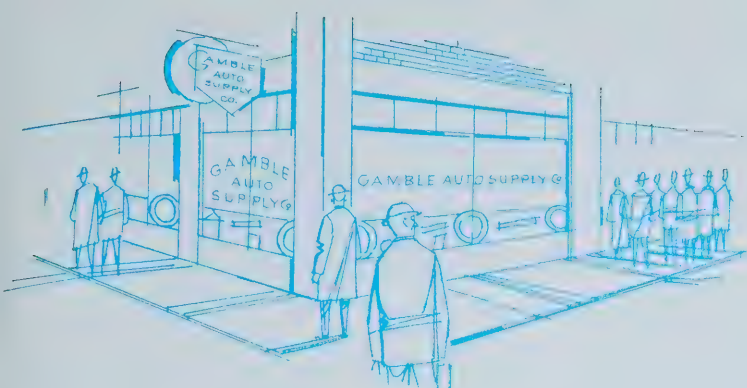
PEAT, MARWICK, MITCHELL & CO., *Certified Public Accountants*
Northwestern Bank Building, Minneapolis, Minn. 55402

The Board of Directors Gamble Skogmo Acceptance Corporation:

We have examined the consolidated balance sheet of Gamble Skogmo Acceptance Corporation and subsidiaries as of January 31, 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

A subsidiary of Gamble Skogmo Acceptance Corporation having customer contracts purchased from affiliates in the amount of \$18,000,000, has made no provision for doubtful accounts in anticipation of the exercise by the sellers of their option to repurchase defaulted contracts. The sellers, whose accounts are included in the consolidated financial statements of Gamble-Skogmo, Inc., have made provision for losses on these contracts.

In our opinion, subject to future exercise of repurchase option by the sellers, the accompanying consolidated balance sheet presents fairly the financial position of Gamble Skogmo Acceptance Corporation and subsidiaries at January 31, 1966, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



AFTER FORTY YEARS

GAMBLE-SKOGMO TODAY

As Gamble-Skogmo enters its 41st year, it may be well to examine the company as it is organized today and to assess its potential as one of the more rapidly growing major merchandising organizations in North America.

From its humble genesis as a small auto accessory store on a side street in St. Cloud, Minnesota, the company in four decades has surpassed \$600 million in sales through over 3,800 retail outlets. From the relatively limited lines of accessories, hardware and appliances offered in its early stores, the company now brings the widest possible spread of consumer products—style clothing for men, women and children, furniture, housewares, sporting goods, lawn and garden equipment—virtually everything except food, to the active, growing, responsive families of its marketing territories.

Significantly, as Gamble-Skogmo has grown, its rate of growth has accelerated. For example, sales in 1956 were just over \$100 million; in the year ahead they will approach \$700 million. Ten years ago there were 2,000 sales units in 15 Midwestern states and four provinces of Canada; today there are over 3,800 units in 40 states and all ten of the Canadian provinces. Just two years ago, sales amounted to \$250 million; through acquisition and internal expansion, today's level of sales suggests that a rate of \$1 billion annually is attainable within this decade.

At the time of this report, Gamble-Skogmo was made up of ten different but generally related company-owned merchandising chains, in most cases augmented by a parallel wholesaling organization serving franchised dealers. In addition, the well-known Aldens catalog, reaching nearly 1,000 pages an edition, is not only a prime tool in developing mail order sales, but through catalog stores and catalog desks, has become a direct order generating device as well.

The various elements of the company's diversified organizations are coordinated and supervised by a central management headquartered in Minneapolis. In addition to providing overall guidance and control, it leads toward combining such activities as purchasing, accounting, finance, real estate, insurance and other administrative functions, thus making possible important economies and efficiencies.

However, in keeping with the principle of maintaining maximum flexibility to take advantage of opportunities arising in particular territories or areas of merchandising, the operating managements of the company's various divisions and subsidiaries are vested with substantial responsibility and latitude of decision within the framework of overall policy. This long-established management practice is carried to the regional and local levels, where it has contributed

Headquarters of Gamble-Skogmo, Inc. are in this building on the corner of Eighth Street and Hennepin Avenue in Minneapolis, Minnesota.





Above is an example of a typical franchised store owned and operated by an independent merchant.



Skogmo franchised stores, independently owned, specialize in soft goods merchandise.

One of the seven Gamble distribution centers. This one is located in St. Louis Park, Minnesota, a suburb of Minneapolis, serving stores in a five state area.

significantly to growth and has been largely responsible for engendering those close personal relationships with customers and communities that have been a Gamble characteristic over the decades.

Gamble Stores, of which there are 222 company-owned and 1,452 franchised, are the direct descendants of the first unit at St. Cloud. For the most part, they market hardlines such as automobile accessories, tires and batteries, hardware, appliances, housewares, radio and television sets, lawn and garden equipment and sporting goods in stores ranging in size from approximately 5,000 to 15,000 square feet at downtown locations in cities and towns of fewer than 50,000 people throughout the central and northern states.

The Gamble company-owned stores have long been a training ground for managerial and executive personnel, and it is around these units that some of the more dramatic merchandising promotions have been developed. In many communities the traditional Gamble store exerts marked retailing leadership and influences buying habits of an area many times the size of the town in which it is placed since these communities frequently serve as many farm families as do the larger metropolitan centers.

Franchised Gamble stores are locally owned and operated and greatly benefit from operating, promotional and merchandising concepts developed for them by the company. More than 125 franchised Gamble units now carry softlines and 435 carry furniture and home furnishings and similar merchandise in addition to the hardlines, and it seems probable this trend will continue.

Skogmo Stores, of which 198 are franchised, are primarily softlines outlets. Similar in size and location to the Gamble franchised stores, they are aggressive marketers of men's, women's and children's clothing and related items in smaller communities, often serving a wide rural shopping area. As in the case of the Gamble franchised stores, the company provides strong merchandising and merchandise support for its franchised Skogmo dealers and other services such as



accounting, insurance, time payment, display and advertising as well.

Although the Gamble and Skogmo company-owned and franchised stores have long characterized the company, and for forty years have been well-recognized features throughout its marketing territory, it became evident by 1960 that to reach a maximum number of customers with the broadest of merchandise lines at competitive prices, a program to develop self-service high volume units would have to be undertaken. After thorough market research, including traffic studies and analyses of changing buying habits, the first *Tempo Store* was opened at Montevideo, Minnesota, in 1962 and was quickly followed by other Tempo stores. Today there are 45 Tempo stores in fourteen states ranging from Michigan and Illinois to Colorado, Wyoming and Idaho and ten more are planned for 1966. Sales of the Tempo group are presently at an annual rate of about \$60 million.

Tempo stores, of which all but one are company-owned, are located mainly in cities of 15,000 to 50,000 population and range in size from approximately 20,000 to 50,000 square feet. In all cases, they adjoin or are in close proximity to self-service food supermarkets operated by experienced food merchandising organizations and are located in shopping center areas on the periphery of the community, where access is easy and there are ample parking facilities. The stores carry a comprehensive line of merchandise, with sales currently about evenly divided between hardlines and soft goods.

The company's Tempo program has been highly successful, with sales in most of the new stores during their first 45 days of operation approximating or equaling the annual volume of the Gamble units they replaced.

Store operations are conducted on the self-service principle, with attractive and easy-to-examine displays of items in bins or on racks and shelves, and there are convenient check-out counters at the store exit.

Late in 1964, Aldens, Inc., a major Chicago-based mail order and retail organization, was merged into Gamble-Skogmo, with the immediate effect of increasing company annual sales by more than a third and adding to profit proportionately. At the time of the merger it was pointed out that Aldens would complement and strengthen the then existing Gamble-Skogmo marketing structure and, especially through its well-established mail order catalog and related catalog sales activities, create new sales opportunities as well as sharply increase competitive capabilities.

The *Aldens Catalog*, which accounts for almost two-thirds of Aldens volume, contains nearly 1,000 pages an edition with more than half of its pages in full color. It is published twice a year, followed by five major sales books and numerous interim direct mailing pieces during the year. An idea of the sales impact of this material may be gained from the fact that at year end, the company had more than a million active credit customer accounts which were responsible for about 58 per cent of mail order sales in 1965. Since experience



A traditional Gamble store which serves its community's needs in everything for the home, car, farm and family.



The Tempo stores are mass merchandising, self-service department stores with wide lines of both hard goods and softlines, offering their customers quality merchandise at lowest possible prices.



The headquarters of the highly-respected Aldens retail and catalog sales company, showing its new addition for its highly mechanized distribution center.

indicates that a credit customer buys about three times as much in a year as a C.O.D. or cash customer, and shows a greater buying loyalty over a longer period, the company has intensified its efforts to add to its credit customer list. New account promotional mailings were increased by 35 per cent during 1965, and special promotions were directed toward present customers of good credit standing. Customer receivables rose by 10 per cent during the year.

Credit life insurance, now offered to mail order credit customers, provides for the payment of the account in full in the event of death, and includes the payment of instalments falling due during certain periods of total disability as well.

Studies were completed during the year on the effective utilization of data processing in the handling of credit accounts. A pilot operation on 50,000 accounts will be completed in the next few months, and it is anticipated that the regular conversion of all accounts will follow.

In addition to use of the Aldens catalog in the conventional way to generate mail order sales, the company now has 111 catalog sales stores and telephone order desks through which customers may conveniently place their orders with knowledgeable and experienced personnel. Fifteen new catalog sales stores are planned to be added early in 1966.

A program is underway to install catalog sales desks in Gamble, Skogmo and Tempo stores and, following tests in various types of company-owned and franchised units, several hundred desks were in operation by year end. Necessarily, this program must be implemented slowly, and its pace will be dependent on factors such as employee training, local and regional promotions and the channeling of customer buying habits.

Adding to the effectiveness of catalog operations is a new hard-lines warehouse and office building completed in August, 1965. It is

adjacent to the Aldens headquarters in Chicago and adds 600,000 square feet, with provision for further expansion. Its 70,000 square feet of dock space will accommodate 38 large trailers at one time.

Aldens Conventional Department Stores were expanded by two units in 1965 to a net total of 23 at the close of the year. These stores, more often than not the dominant stores in their communities, have just completed a record year and fully confirm management's belief that its continuing program of store acquisition is soundly based.

Goldstein's at Murfreesboro, Tennessee, and Jay's at Marysville-Yuba City, California, acquired this year, are expected to add \$2.5 million to annual sales and they extend the Aldens chain to thirteen states. As in most other cases, these stores will operate under their original names which have strong identification in their home communities, but they will greatly benefit from Aldens buying power and tested promotional activities.

Shoppers World are self-service, low margin department stores, principally in the Chicago area which have annual sales of over \$45 million. There are now fourteen units in this group, ranging in size from 40,000 to 120,000 square feet, and they are situated in high traffic retailing locations with ample provision for customer parking. One stop shopping is facilitated due to their location adjacent to food supermarkets.

As in the case of Tempo stores, Shoppers World offers a broad range of high quality merchandise divided between hard and soft lines. Purchases may be made for cash or through Shoppers World credit accounts.

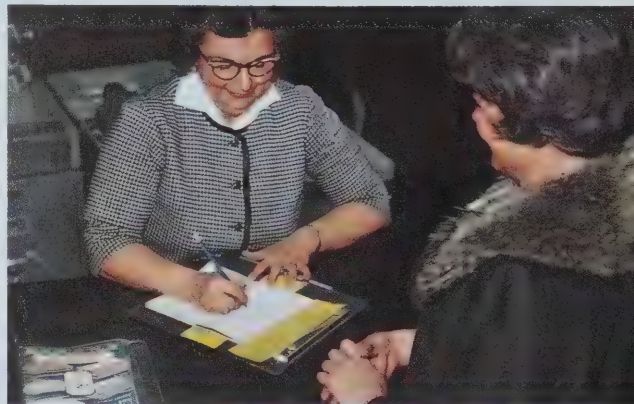
The John Alden Life Insurance Company, which sells insurance through Aldens catalogs, circulars enclosed with monthly credit statements and through Shoppers World department stores, was formed in 1961.

In addition to ordinary life insurance, the company writes 20-pay life, senior citizen, 20-year endowment, family, hospital, and travel and accident insurance. Aldens customers are offered the convenience of charging insurance premiums to their credit accounts if they wish.

An agency organization has been developed in Illinois and Indiana and it is expected to be further expanded in 1966. Insurance in force now exceeds \$150 million and annual premiums are more than \$2.3 million.



Coppin's, located in Covington, Kentucky, is one of the department stores owned and operated by Aldens. The company has 23 of these successful and traditional department stores.



Catalog sales offices are an important part of Aldens business, and experienced and friendly catalog specialists offer assistance and a wide range of merchandise to customers.

Shoppers World stores are large, modern low-margin retailing giants offering a wide variety of high quality merchandise at highly competitive prices.





Buckeye Marts, of which there are eight in the Cussins & Fearn organization, pioneered the low-margin concept for the company in its trading area.



A typical Cussins & Fearn store which specializes in the merchandising of a wide range of high quality hardlines merchandise.



The general offices of the Cussins & Fearn organization located in Columbus, Ohio, houses its managerial staff and also contains its warehouse distributing facilities.

The first *Cussins & Fearn Store* was opened in Columbus, Ohio, in the Gaslight era of 1893. From this humble beginning, the dream of a horsecart peddler, Mr. Charles Fearn, the founder, the company grew to the present chain of 40 modern retail outlets. The policy established by the founder to bring lower prices to his customers and thereby increase the sales volume and profit, led to the opening of additional stores in principal Ohio communities. The Cussins & Fearn stores are very similar in size and character of merchandise lines to the company's Gamble stores, appealing to communities which have a combined industrial and rural market.

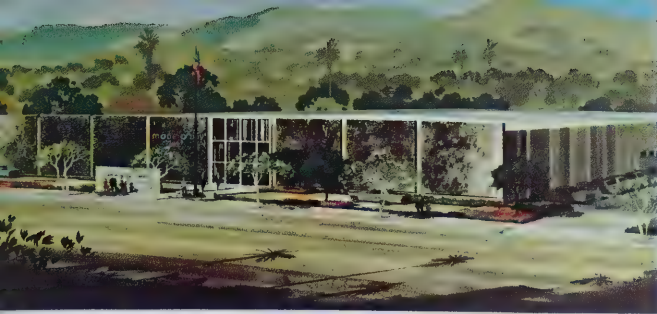
In 1962, realizing that consumer demands were bringing about a sweeping change in the retail industry, Cussins & Fearn management opened the first *Buckeye Mart* in Wooster, Ohio. In the following three years other Buckeye Marts were opened in seven other Ohio cities. Four more Buckeye Marts are scheduled to open in 1966.

Buckeye Marts range in size from 40,000 to 90,000 square feet and are complete one-stop full-line mass merchandising department stores. More than 50 per cent of the selling area is devoted to clothing and complete lines of apparel and accessories from infants to adults are featured.

Appliances, housewares, furniture, rugs, domestics, toys, sporting goods, tools, hardware, tires, auto accessories, paint, plumbing and heating equipment, health and beauty aids, jewelry, records and a host of other items are carried.

The Buckeye units are scientifically planned and located for maximum customer shopping convenience. All are completely airconditioned and have ample free parking areas. In most cases they are adjacent to or in conjunction with self-service food supermarkets operated by reliable and experienced food merchandising companies.

The first *Mode O' Day Store* was opened in 1932 in Glendale, California. For many years the women's garment manufacturing business was made up of hundreds of small concerns. Little had been done to create a reliable and stable market. As a result the cost of selling and servicing numerous small retail stores with only small portions of their requirements was excessive and suppliers' sales fluctuated greatly.



An artist's conception of the new Mode O'Day offices being opened this spring in Burbank, California to better serve this expanding organization.

Gradually big volume manufacturers emerged. Among the first of these was Mode O' Day which developed the franchise-consignee concept of store ownership providing the manufacturer a reliable and predictable market which he could supply efficiently and economically. Likewise, Mode O'Day early realized the value of a trade name and therefore invested heavily in advertising to accomplish this.

In 1965, Mode O'Day manufactured a total of over 4,100,000 garments in nine factories located in smaller cities with readily available and high grade labor supply throughout its marketing area. These factories serve a chain of 33 company-owned and 738 franchised women's and children's apparel shops operating primarily on the West Coast and in the Midwest.

The majority of the stores range from 1,000 to 1,500 square feet in size and are owned and operated by women, usually retired teachers, widows and former employees of dress shops or department stores desirous of operating their own business. Merchandise featured includes low-priced women's and children's apparel, sportswear, lingerie, swimwear, suits, handbags, hosiery, slippers and costume jewelry.

Since 1960 the company has instituted a program to move into larger and better-located units, and has opened large company-owned and operated high volume stores in a number of West Coast metropolitan cities.

In anticipation of further growth, the company is expanding its main office and Western Division warehouse, which new quarters will open in April this year.

A Mode O'Day store typifying the new store front and the larger sized unit. These stores specialize in ladies ready-to-wear.



The home offices and shipping center for Rasco is located at Los Angeles, California.

Rasco Stores will be celebrating their 32nd birthday this year. The first store was opened in 1934 in Fullerton, California. In June of 1951, the stock of the company was acquired by Founders Incorporated. At that time there were 43 stores associated with the company which produced an annual volume of approximately \$3 million.

At the close of 1965 the total sales serviced by the company had grown many times over, and Rasco was serving 114 general variety stores, of which nine were company-owned, 21 were jointly owned with store managers and 84 were franchised stores.

The lines of merchandise carried by these stores is confined mainly to those traditionally merchandised in a variety store, and Rasco assists its franchise holders by supplying them with their merchandise needs, operating procedures, bookkeeping services, a fixture lease plan and merchandising and promotional material. Rasco stores range in size from roughly 3,000 to 10,000 square feet with most of them in the 5,000 square foot range.

The growth of the company has been accomplished through the broadening of lines carried, physical store modernization and more aggressive advertising and merchandising. It has also shown growth through the enlargement of stores, the acquisition of existing variety stores and the opening of new units to serve new markets.

This Rasco store located in Grass Valley, California, was opened in June, 1965. Modern and airconditioned, the store has 10,000 square feet of selling space.



CANADIAN OPERATIONS



Located at 1530 Gamble Place in Winnipeg, Manitoba, this is an artist's conception of the new headquarters offices and warehouse for Gamble Macleod Limited and the Macleod Division which will be dedicated this spring.



One of the modern Macleod stores serving communities across the Prairie Provinces of Canada with all needs for the farm, home, car and family.

The initial venture into retailing in Canada, taken more than twenty years ago, was of a relatively modest nature. Macleods, at the time of its acquisition by Gamble-Skogmo in 1945, operated 26 general merchandise stores in western Canada and although highly respected in its marketing area was indeed a far cry from the aggressive merchandising force it has come to be.

What has happened in the intervening twenty years in the Canadian economy set the stage for what has amounted to a revolution in retailing and the company has been able to meet the burgeoning demands of an expanding economy through further retailing acquisitions and the constant expansion of its marketing facilities.

Over the past few years, the Canadian operations of Gamble-Skogmo have been brought together to create a cohesive organization that provides skilled management services and controls without limiting the flexibility of its operating units. Thus, local conditions are dealt with locally. Competitive situations are considered and handled by those in the field and promotions are implemented by those who know their customers and their customers' needs. On the other hand, in such areas as finance, insurance, real estate, corporate budgets and similar functions, the company is now structured in Canada to take advantage of the values inherent in centralization without accepting the disadvantages of management too far removed from the day-to-day problems of high volume retailing.

A wholly-owned subsidiary of Gamble-Skogmo, Gamble Macleod Limited, is now the senior organization in Canadian operations. Headquartered in Winnipeg, it owns Macleod Stedman Limited, which in turn owns the Stedman Division, a variety chain, and the Macleod Division, a general merchandising chain. Also reporting to Gamble Macleod are Clark's-Gamble of Canada Limited, Marshall Wells Limited, Gamble Drugs Limited, Growth Acceptance Corporation, Limited, and Macleod's Store Properties Limited. In the spring of 1966 a new building to house the head office of Gamble Macleod and some of its subsidiaries will be opened at Winnipeg. It will have a 54,000 square foot office area and a 288,000 square foot warehouse.

The *Macleod Division* in the past twenty years has come a long way indeed. From the original 26 branches, it has aggressively expanded over western Canada until today there are 224 units from Fort William, Ontario in the east to Prince George, British Columbia in the west. Seventy-eight of these stores are company-owned and 146 are owned by franchised dealers. In 1965 six new stores were opened, and major expansion occurred with the enlargement or relocation of existing stores leaning toward the creation of complete department stores. In total, selling space increased by 15 per cent and the company looks for a doubling of productive space by 1970.

The Macleod Division is actively furthering the department store concept of merchandising by concentrating expansion to larger units. A new unit just opened in Regina, Saskatchewan, is 40,000 square feet in size and has a four-bay automotive service center. Three new departments have been added here, Health and Beauty Aids, Pets and Pet Supplies and Photographic Supplies. A similar 44,000 square foot store will be opened in Saskatoon, Saskatchewan in the year ahead.

Today Macleods caters to both urban and rural markets serving

all family members. From light farm equipment to yard goods, it meets family needs in a rapidly expanding economy characterized by growing personal income. Significantly, 95.3 per cent of all merchandise purchased during the year was bought from Canadian suppliers.

In 1963 the one-half-century-old variety chain of *Stedmans* was acquired. During the past two years sharp changes have been effected in its operations, changes which are clearly related to customer requirements and buying habits.

Much broader assortment of merchandise lines and customer services have been added which give the company the scope to increase the size of its retail units and enter the growing market for suburban shopping centers. In the past two years fourteen of the company's 146 stores have been enlarged, and four of the last five new stores opened provided premises of 18,000 to 40,000 square feet of brightly-lighted, well-stocked and displayed shopping areas. The company's 200 franchised dealers are also broadening their lines of merchandise and many are remodeling or enlarging to take advantage of the favorable retailing conditions.

In smaller towns and cities a plan is being developed to open new units adjacent to Macleods stores. Merchandise lines in the two divisions complement each other and thus provide customers with broader selections. In Melville, Saskatchewan, both units are now located in a building owned by Macleod's Store Properties Limited, and similar plans are underway for the town of Drumheller, Alberta, and in a shopping center in Saskatoon.

Through the centralized credit facilities offered by Gamble Macleod, Stedmans has made available time payment and revolving credit programs for its customers. Time payment sales increased 55 per cent in the past year and response from customers indicates that these new programs will be actively pursued in the future. New programs such as these assisted the company in increasing its retail business by 19 per cent over the previous year and its total sales by 12 per cent.

This growing business has led to an increase of 35,000 square feet in warehousing space to handle packaged lot merchandise and advanced orders. This expansion will permit even more efficient handling methods to be employed with further beneficial effect on warehousing costs.

Clark's-Gamble of Canada Limited will celebrate its fourth anniversary in October. The opening of two stores in Winnipeg in 1962 was followed by another in Brantford, Ontario, in 1963 and still another in Winnipeg in 1964. The stores offer brightly-lit and displayed shopping areas of 70,000 square feet concentrating on the low margin philosophy of pricing yet emphasizing high standards of quality on both national and private brand lines.

Clark's provides its customers with ample parking, evening shopping and easy self-service selection. New departments and services are constantly being added to meet the growing demand for one-stop shopping. The recent addition of a Fabrics Department and a Customer Convenience Center which provides gift wrapping, post office and similar facilities, serves to illustrate this.

Other customer service features include a complete credit program offering revolving charge accounts, coupon books and instalment credit tailored to customer requirements. Three of the stores provide complete automotive service centers including gasoline, while modern equipped service bays provide full-service requirements from lubrication and wheel alignment to motor and electrical overhaul.

Sales have continued to grow at an accelerated pace each year, increasing 126 per cent in 1965 over the first full year of operations in 1963.

Marshall Wells Limited became a wholly-owned subsidiary of Gamble Macleod Limited effective on November 1, 1965. Originally founded at Winnipeg in 1901, the company became associated with



A dramatic piece goods display for this important department in Stedman stores.

Seasonally the Clark stores conduct fashion shows to exhibit the latest in feminine apparel.





Marshall Wells stores have long had a reputation for serving a vast area of Canada with their needs in hardware, housewares and other hard goods merchandise.



An important segment of Marshall Wells business is its Industrial Division. Above is a view of one of the warehouses which distributes building and industrial supplies to industry.

the Gamble organization in 1957 and today has expanded into a distributing empire of six strategically located warehouses. Marshall Wells is a hardlines retail-wholesale organization with a substantial industrial volume of business. It has two wholly-owned subsidiaries, Marshall Wells Realty Limited in which all properties of the company are held, and International Laboratories Limited, St. Boniface, Manitoba, a paint manufacturing plant. In addition, the company holds a 49 per cent interest in Wood Alexander Limited, Hamilton, Ontario, a hardware distributor serving industry as well as 95 Crest franchised dealer stores.

Marshall Wells Limited serves a vast area of Canada with a population of over five million people, extending from Lake Superior in the east to Vancouver Island on the Pacific coast and from the United States border to the Arctic Circle in the north. The company has 34 company-owned stores and 276 franchised dealer stores.

The industrial growth of Canada provides an almost unlimited opportunity for development of this division and last year accounted for a substantial portion—approximately 40 per cent—of the company's sales. This division serves the industrial trade with such items as industrial tools, heavy wire products and fasteners, steel, electrical wiring supplies, building supplies, plumbing and heating, contractors hardware and appliances for high rise construction.

Growth Acceptance Corporation Limited is a wholly-owned subsidiary of Gamble Macleod and was organized in 1961 for the purpose of financing the credit business of the operating divisions. Instalment contracts purchased by the corporation at January 31, 1966 amounted to \$15,123,890, an increase of 42.9 per cent over the previous year. A major share of this increase was represented by the extension of this service to Marshall Wells Limited, and roughly a 10 per cent increase over the previous year in contracts financed for the other merchandising divisions.

Completing the sixth year of operation, *Macleod's Store Properties Limited*, real estate subsidiary organized to acquire and develop store buildings and warehouse facilities for the operating divisions, continues to supply the need for larger units to meet increasing customer demands. Total assets amounted to \$7,557,740 representing the book value of 38 retail stores, two warehouses and the head office building. Long term debt of \$3,405,000 supplied 45 per cent of capital requirements, the balance being provided by short term borrowing and equity.

Gamble Drugs Limited, which was conceived and organized during 1965 after thorough research of the drug and toiletry distribution industry, marketing patterns, costs, competition and pricing, shipped against its first order in September. The company is a wholesale drugs distributor currently selling to retail pharmacies, hospitals, clinics and government institutions in a territory which covers Manitoba, Saskatchewan and western Ontario. Currently under study is a franchise drug store program providing franchised "Super Thrifty" drug stores with a complete merchandising program covering pricing, inventory control, advertising and supervisory assistance, which will offer a unique opportunity to the independent druggist to achieve the benefits of large scale operations and sales and profit gains.

Claude Neon Advertising Limited remains as the only non-merchandising operation of Gamble-Skogmo. This company was a Canadian subsidiary of General Outdoor Advertising Co., Inc. and became a subsidiary of Gamble-Skogmo at the time of the General Outdoor Advertising Company merger into Gamble-Skogmo. The leading outdoor advertising company in the Dominion, operations extend east from the province of Saskatchewan. Under the direction of aggressive and experienced advertising executives, the company has made consistent and satisfactory progress.

GAMBLE-SKOGMO, INC.

3,001 Domestic Stores by State

State	GAMBLE BRANCHES	GAMBLE DEALERS	SKOGMO DEALERS	TEMPO* DEPT. STORES	CLARK'S- GAMBLE STORES	CUSSINS & FEARN STORES	RASCO VARIETY STORES	RASCO FRANCHISE DEALERS	MODE O'DAY CO. OWNED FROCK SHOPS	MODE O'DAY DEALERS	ALDENS CATALOG SALES	ALDENS TELEPHONE OFFICES	DEPARTMENT STORES (ALDENS)	SHOPPERS WORLD
Alaska										3				
Arizona							1	10	1	12				
Arkansas		4								16			1	
California							6	67	7	228			1	
Colorado	13	73	2	3					1	26		1		
Connecticut												1		
Florida										7		1		
Hawaii										2				
Idaho	1	12		4						16				
Illinois	10	95	4	3					3	37	25	5	4	11
Indiana	5	42	3	1	1				2	11	11		5	2
Iowa	33	120	13	1	1				3	38	4	1	2	
Kansas	14	90	11	5					1	34	1	1		
Kentucky		10								1	1	1	3	
Louisiana									1	1			1	
Maine														
Maryland												1		
Massachusetts												1		
Michigan	19	143	12	4					1	11	11	5	1	
Minnesota	29	215	53	9					1	8	1	1		1
Missouri	6	70		5					2	34	4			
Montana	10	65	8	3						8				
Nebraska	20	122	17	1					1	20		2		
Nevada										6				
New Mexico	3	23					2	10		15				
New York												4		
North Carolina					1									
North Dakota	8	65	18	5						1				
Ohio	5	13			1	**40			1	6	12	3	1	
Oklahoma	1	8							1	11		1		
Oregon		1						1	1	45				
Pennsylvania												3	1	
South Carolina													1	
South Dakota	12	81	13	3						2				
Tennessee		1											1	
Texas		3			2				4	49				
Utah		2							1	18				
Washington								17	1	53				
Wisconsin	26	173	43	2						11	10			
Wyoming	7	21	1	1						8				
Total	222	1452	198	50	6	40	9	105	33	738	80	31	23	14

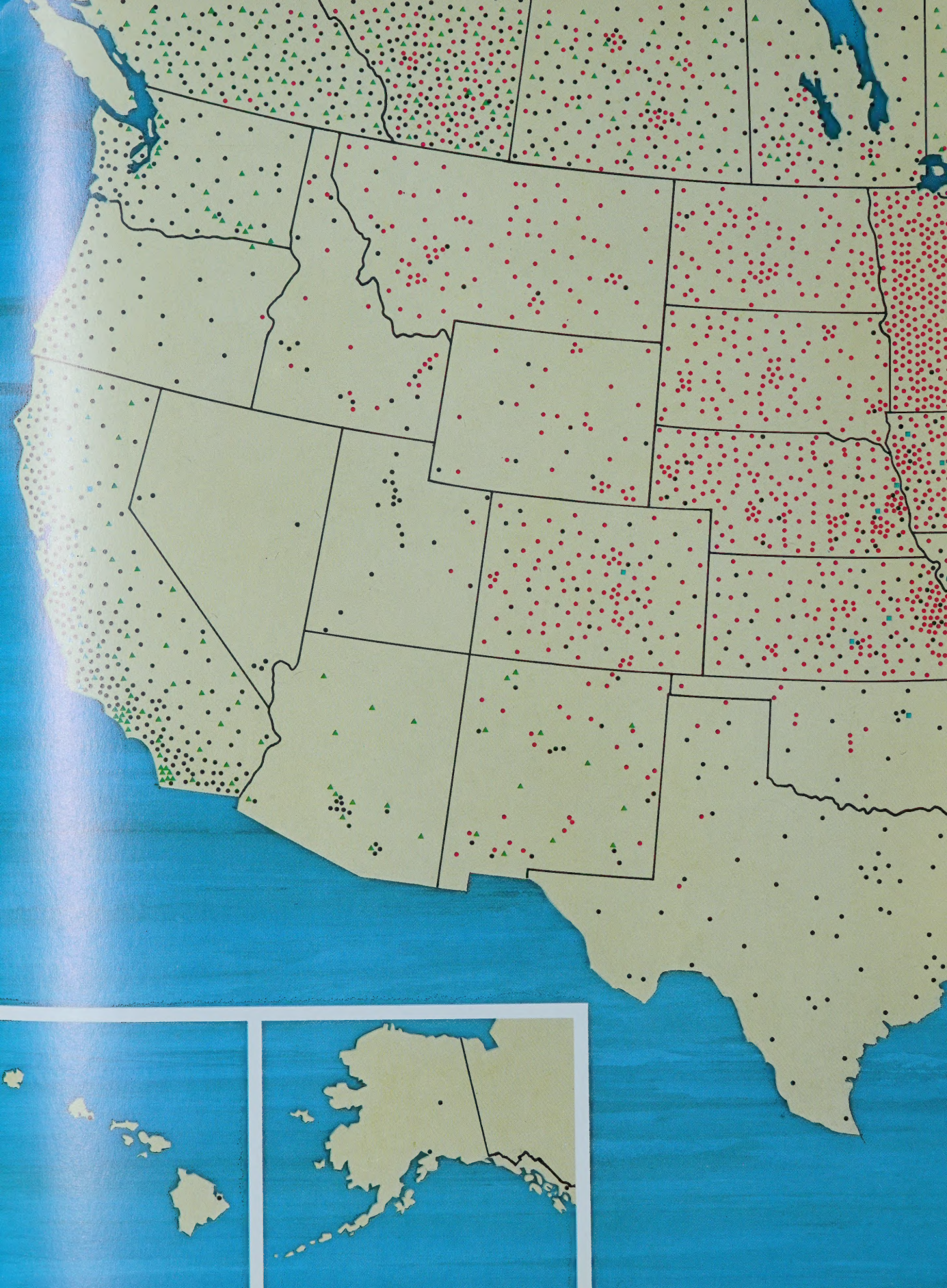
*Includes five Gamble Department stores in Kansas City area.

**Includes 32 regular retail stores and eight Buckeye Marts.

GAMBLE MACLEOD LIMITED

884 Canadian Stores by Province

Province	Macleods		Stedmans		Clark's- Gamble Ltd.	Marshall Wells	
	Branches	Dealers	Branches	Dealers		Branches	Dealers
Alberta	30	47	7	29		8	88
British Columbia	7	1	18	23		9	76
Manitoba	12	38		6	3	4	46
New Brunswick			16	3			
Newfoundland			1				
Nova Scotia			23	5			
Ontario	3	4	73	112	1	2	5
Prince Edward			1	2			
Quebec			2	4			
Saskatchewan	26	56	5	16		11	61
Total	78	146	146	200	4	34	276





GAMBLE-SKOGMO, INC.

This map shows only the breadth of our operations and the density of our retail outlets by state and province. For detailed tabulation of types of retail outlets by state and province, refer to flap of this map.



IN U.S.A.

Gamble Company-owned and Franchised stores
Tempo Self-Service Department Stores
Skogmo Franchised Stores
Clark's-Gamble Department Store

IN CANADA

Macleods Company-owned and Franchised stores
Clark's Department Stores



Aldens Catalog Sales Stores and Telephone Sales Offices
Shoppers World Stores
Department Stores



IN U.S.A.

Rasco Stores
Cussins and Fearn Stores
Buckeye Marts

IN CANADA

Stedmans Company-owned and Franchised stores



IN U.S.A.

Mode O'Day Company-owned and Franchised stores

IN CANADA

Marshall Wells Company-owned and Franchised stores

GAMBLE-SKOGMO, INC.

15 North Eighth Street
Minneapolis, Minnesota 55403

